THE SECRETARY OF HEALTH AND HUMAN SERVICES
WASHINGTON, D.C. 20201

AUG 3 1 1992

The Honorable Dan Quayle
President of the Senate
Washington, D.C. 20510

Dear Mr. President:

I am respectfully submitting the report required by section 4401(a) of the Omnibus Budget Reconciliation Act of 1990. It directs the Secretary of Health and Human Services to submit to Congress each year a complete report on the operations of the Medicaid Drug Rebate program.

This report describes the following items which are required by section 4401(a): (1) ingredient costs paid for single source drugs, multiple source drugs, and nonprescription covered outpatient drugs; (2) the total value of rebates received and the number of manufacturers providing such rebates; (3) the effect of inflation on the value of rebates; (4) trends in prices paid for covered outpatient drugs; and (5) Federal and State administrative costs associated with compliance with the provisions of this title. It also includes information on trends in manufacturer pricing and the effect of "best price" on the unit rebate amount.

I also am sending a copy of this report to the Speaker of the House of Representatives.

Sincerely,

Louis W. Sullivan

Louis W. Sullivan, M.D.

Enclosure

THE SECRETARY OF HEALTH AND HUMAN SERVICES
WASHINGTON, D.C. 20201

AUG 3 1 1992

The Honorable Thomas S. Foley
Speaker of the House of Representatives
Washington, D.C. 20515

Dear Mr. Speaker:

I am respectfully submitting the report required by section 4401(a) of the Omnibus Budget Reconciliation Act of 1990. It directs the Secretary of Health and Human Services to submit to Congress each year a complete report on the operations of the Medicaid Drug Rebate program.

This report describes the following items which are required by section 4401(a): (1) ingredient costs paid for single source drugs, multiple source drugs, and nonprescription covered outpatient drugs; (2) the total value of rebates received and the number of manufacturers providing such rebates; (3) the effect of inflation on the value of rebates; (4) trends in prices paid for covered outpatient drugs; and (5) Federal and State administrative costs associated with compliance with the provisions of this title. It also includes information on trends in manufacturer pricing and the effect of "best price" on the unit rebate amount.

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Enclosure

THE SECRETARY OF HEALTH AND HUMAN SERVICES
WASHINGTON, D.C. 20201

AUG 31 1992

The Honorable Edward R. Roybal
Chairman, Select Committee on Aging
House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

I am respectfully submitting the report required by section 4401(a) of the Omnibus Budget Reconciliation Act of 1990. It directs the Secretary of Health and Human Services to submit to Congress each year a complete report on the operations of the Medicaid Drug Rebate program.

This report describes the following items which are required by section 4401(a): (1) ingredient costs paid for single source drugs, multiple source drugs, and nonprescription covered outpatient drugs; (2) the total value of rebates received and the number of manufacturers providing such rebates; (3) the effect of inflation on the value of rebates; (4) trends in prices paid for covered outpatient drugs; and (5) Federal and State administrative costs associated with compliance with the provisions of this title. It also includes information on trends in manufacturer pricing and the effect of "best price" on the unit rebate amount.

I also am sending a copy of this report to the President of the Senate, the Speaker of the House of Representatives, the Chairman of the Committee on Finance of the Senate, the Chairman of the Committee on Energy and Commerce of the House of Representatives, and the Chairman of the Committee on Aging of the Senate.

Sincerely,

Louis W. Sullivan

Louis W. Sullivan, M.D.

Enclosure

THE SECRETARY OF HEALTH AND HUMAN SERVICES
WASHINGTON, D.C. 20201

AUG 3 1 1992

The Honorable Lloyd Bentsen
Chairman, Committee on Finance
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

I am respectfully submitting the report required by section 4401(a) of the Omnibus Budget Reconciliation Act of 1990. It directs the Secretary of Health and Human Services to submit to Congress each year a complete report on the operations of the Medicaid Drug Rebate program.

This report describes the following items which are required by section 4401(a): (1) ingredient costs paid for single source drugs, multiple source drugs, and nonprescription covered outpatient drugs; (2) the total value of rebates received and the number of manufacturers providing such rebates; (3) the effect of inflation on the value of rebates; (4) trends in prices paid for covered outpatient drugs; and (5) Federal and State administrative costs associated with compliance with the provisions of this title. It also includes information on trends in manufacturer pricing and the effect of "best price" on the unit rebate amount.

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Sincerely,

Louis W. Sullivan

Louis W. Sullivan, M.D.

Enclosure

THE SECRETARY OF HEALTH AND HUMAN SERVICES
WASHINGTON, D.C. 20201

AUG 3 1 1992

The Honorable David H. Pryor
Chairman, Special Committee on Aging
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

I am respectfully submitting the report required by section 4401(a) of the Omnibus Budget Reconciliation Act of 1990. It directs the Secretary of Health and Human Services to submit to Congress each year a complete report on the operations of the Medicaid Drug Rebate program.

This report describes the following items which are required by section 4401(a): (1) ingredient costs paid for single source drugs, multiple source drugs, and nonprescription covered outpatient drugs; (2) the total value of rebates received and the number of manufacturers providing such rebates; (3) the effect of inflation on the value of rebates; (4) trends in prices paid for covered outpatient drugs; and (5) Federal and State administrative costs associated with compliance with the provisions of this title. It also includes information on trends in manufacturer pricing and the effect of "best price" on the unit rebate amount.

I also am sending a copy of this report to the President of the Senate, the Speaker of the House of Representatives, the Chairman of the Committee on Finance of the Senate, the Chairman of the Committee on Energy and Commerce of the House of Representatives, and the Chairman of the Select Committee on Aging of the House of Representatives.

Sincerely,

Louis W. Sullivan

Louis W. Sullivan, M.D.

Enclosure

THE SECRETARY OF HEALTH AND HUMAN SERVICES
WASHINGTON, D.C. 20201

AUG 3 1 1992

The Honorable John D. Dingell
Chairman, Committee on Energy and Commerce
House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

I am respectfully submitting the report required by section 4401(a) of the Omnibus Budget Reconciliation Act of 1990. It directs the Secretary of Health and Human Services to submit to Congress each year a complete report on the operations of the Medicaid Drug Rebate program.

This report describes the following items which are required by section 4401(a): (1) ingredient costs paid for single source drugs, multiple source drugs, and nonprescription covered outpatient drugs; (2) the total value of rebates received and the number of manufacturers providing such rebates; (3) the effect of inflation on the value of rebates; (4) trends in prices paid for covered outpatient drugs; and (5) Federal and State administrative costs associated with compliance with the provisions of this title. It also includes information on trends in manufacturer pricing and the effect of "best price" on the unit rebate amount.

I also am sending a copy of this report to the President of the Senate, the Speaker of the House of Representatives, the Chairman of the Committee on Finance of the Senate, the Chairman of the Committee on Aging of the Senate and the Chairman of the Committee on Aging of the House of Representatives.

Sincerely,

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Enclosure

# REPORT TO CONGRESS:

# MEDICAID
# DRUG REBATE
# PROGRAM

Louis W. Sullivan, M.D.
Secretary of Health and Human Services
1992

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# A - EXECUTIVE SUMMARY

Section 1927 of the Social Security Act (the Act) requires that, in order for Federal payment under the Medicaid program to be available for covered outpatient drugs, a manufacturer must have entered into a rebate agreement with the Secretary of the Department of Health and Human Services. The statute further requires that all such manufacturers provide each State with a quarterly rebate amount consistent with the specific methodology described within the Act under this section.

The following summarizes our calendar year 1991 experience under the specific mandates on which the Secretary is required to report annually to Congress:

1. **Trends in prices paid for covered outpatient drugs**

   Beginning January 1, 1991, and continuing through the first three quarters of CY 1991, 44 of the top 150 drugs (29.3 percent) showed no increase in the prices, before rebates, paid by States for these drugs; 47 (31.3 percent) increased by 3 percent or less; another 47 (31.3 percent) increased between 4 and 10 percent; and, 12 (8 percent) increased by more than 10 percent.

2. **Trends in ingredient costs (actual price paid for each drug minus dispensing fee established by each State) paid for single source drugs, multiple source drugs, and nonprescription-covered outpatient drugs**

   During the first three quarters of CY 1991, 87 of the top 150 drugs (58 percent) showed an increase of 3 percent or less; 50 of the top 150 drugs (33 percent) increased from 4 to 10 percent; and the remaining 13 drugs (9 percent) increased by more than 10 percent.

3. **Total value of rebates received and the number of manufacturers providing such rebates**

   For the last 6 months of CY 1991, States received $235.3 million ($136.8 million Federal share) from 342 manufacturers under this program. No rebates were received prior to July. As of April 1, 1992, 415 manufacturers were participating in the program.

4. **Effect of the inflation adjustment on the rebates**

   Under OBRA 90, the amount to be rebated is to be increased for an innovator (non-generic) drug's price which has increased faster than the rate of inflation as measured by the Consumer Price Index-Urban.

The effect of the inflation adjustment on the unit rebate amount (URA) -- the factor that is used in conjunction with utilization to compute total rebates -- was analyzed for the 143 innovators in the top 150 drugs. In the first quarter of CY 1991, the inflation adjustment produced more than a 20-percent increase in the URA for 46 drugs (32 percent of the 143 total), contributing $4 million to the rebates. In the second quarter, the adjustment accounted for more than a 20-percent increase in the URA for 72 drugs (50 percent), contributing $10.2 million to the rebates. In the third quarter, the URAs for 85 drugs (60 percent) were similarly affected, with the inflation factor contributing $17.8 million to the rebates.

As mandated by Congress, we wish to point out that this report does not address the size of rebates under the Medicaid program with those paid under other rebate programs. We are unaware of any comparable rebate program and have no basis for undertaking such an analysis. In lieu of this item, however, we have included information on manufacturer pricing trends from the baseline period (third quarter of CY 1990) through the third quarter of 1991, and the impact of the "best price" factor upon the size of the rebates.

5. Trends in manufacturer prices

Since there was concern that manufacturers were raising their prices in response to the drug rebate program, we performed several different analyses of the top 150 drugs. We compared prices for four different periods in order to obtain a better picture of quarter-to-quarter increases and cumulative increases since the program was implemented.

In our study of the cumulative result of quarterly increases, we looked at the 143 innovator drugs and analyzed their prices from the baseline period (third quarter of CY 1990) to the third quarter of CY 1991. We found that 6 showed no increase, 16 increased by 3 percent or less, 65 increased by 4 to 10 percent, while 56 increased by more than 10 percent.

6. Effect of "best price" on the URA

The URA for innovator drugs in CY 1991 was calculated as 12.5 percent of the average manufacturer price (AMP) or the AMP minus the best price, not to exceed 25 percent of the AMP. "Best price" is defined in the rebate agreement as:

"...the lowest price at which the manufacturer sells a single source or innovator multiple source drug to any wholesaler, retailer, nonprofit entity, or government entity within the United States in any pricing structure..."

Using a computer model, we analyzed the effect the "Best Price" factor had on the magnitude of rebates payable under this program.

For the first quarter of CY 1991, $47.4 million in total rebates was calculated for 27 States, of which $14.7 million (31 percent of the total) was attributable to the "best price" factor. For the second quarter, rebates were calculated to total $70.4 million for these States, of which $20.7 million (29 percent) was due to the factor. For the third quarter of CY 1991, $91.7 million was calculated; the best price contributed $26.2 million (29 percent) of the total.

Price increases from quarter to quarter yielded different results and are discussed in greater detail within the report.

The reader is advised that the data contained in this report are presented in aggregate form to ensure compliance with the confidentiality requirements of section 1927(b)(3)(D) of the Act.

## B - OVERVIEW

Section 1927 of the Social Security Act (the Act) requires that, in order for federal payment under the Medicaid program to be available for covered outpatient drugs, a manufacturer must have entered into a rebate agreement with the Secretary of the Department of Health and Human Services. The statute further requires that all such manufacturers provide each State with a quarterly rebate amount consistent with the specific methodology described within the Act under this section.

Additionally, the statute requires the Secretary to report annually to Congress with regard to the following issues:

A. Ingredient costs paid under title XIX for single source drugs, multiple source drugs, and nonprescription covered outpatient drugs;

B. the total value of rebates received and number of manufacturers providing such rebates;

C. how the size of such rebates compares with the size of rebates offered to other purchasers of covered outpatient drugs;

D. the effect of the inflation adjustment on triggering additional rebates required under this section;

E. trends in prices paid under this title for covered outpatient drugs; and

F. Federal and State administrative costs associated with compliance with the provisions of this title.

As mandated by Congress, we wish to point out that this report does not address the size of rebates under the Medicaid program with those paid under other rebate programs (item C, above.) Although we are unaware of any comperable rebate program, there are a number of drug discounts provided to other large volume payers, e.g., the Veterans' Administration (VA). This report does not directly address discounts provided to the VA and other Federal payers and the recent accusations of cost shifting. Since we have no data pertaining to VA discounts, we can make no comparisons between VA drug discounts and Medicaid drug rebates. However, analysis of these issues relating to the Medicaid drug rebate program are being undertaken by the General Accounting Office (GAO) and the DHHS Office of Inspector General (OIG). Both the GAO and the OIG reports are scheduled for release in the fall.

In lieu of this item, however, we have included information on manufacturer pricing trends from the baseline period (third quarter of calendar year (CY) 1990) through the third quarter of 1991, and the impact of the "best price" factor upon the size of the rebates.

The reader is advised that the data contained in this report are presented in aggregate form to ensure compliance with confidentiality requirements Section 1927(b) (3) (D) of the Act.

## C - BACKGROUND

Number of Drugs Covered. Approximately 45,000 drug products are covered under the rebate agreements signed between the Health Care Financing Administration (HCFA) and more than 400 drug manufacturers. These represent well over 95 percent of all drug costs that State Medicaid programs incurred on behalf of their recipients prior to the enactment of the enabling legislation under the Omnibus Budget Reconciliation Act of 1990 (OBRA).

Number of Manufacturers. On February 14, 1991, HCFA distributed the national drug rebate agreement to drug labelers. The cover letter stated that rebate agreements entered into before March 1, 1991 would be effective January 1, 1991; agreements entered into on or after March 1, 1991 would take effect beginning in the calendar quarter starting more than 60 days later.

The deadline for enrolling for January 1, 1991 effective dates, was subsequently extended until April 30, 1991, by which date 342 manufacturers had enrolled. Seven more manufacturers enrolled effective July 1, for a total of 349; and 43 more enrolled effective October 1, 1991, for a total of 392. With several small companies dropping out, and others enrolling, a total of 413 manufacturers had agreements that were effective January 1, 1992 and 415 were effective April 1, 1992.

> (Note that these counts are of labeler codes. A manufacturer may hold title to multiple labeler codes, so that 415 labeler codes represents about 350 different drug manufacturers. For purposes of the drug rebate program, distributors who hold title to the National Drug Code (NDC) for a drug are considered manufacturers).

Timeframes for Data Transmittals. The statute requires manufacturers to give HCFA updated drug product and pricing data 30 days after the end of each quarter. Within 15 days thereafter, HCFA prepares and sends States a complete drug data file, including the unit rebate amount (URA) calculated for each NDC for the quarter just ended. States are required to send drug utilization data to participating manufacturers within 60 days after the end of each calendar quarter (or by May 31, 1991, for the first quarter of the rebate program).

In May 1991, HCFA informed the States that their first quarterly utilization reports were due to drug manufacturers by the end of July, rather than May. The decision to postpone the initial deadline was prompted by requests from many States, and by the lack of baseline and/or first quarter pricing data from many manufacturers, especially those which had signed up during the extended enrollment period ending April 30, 1991. HCFA also wanted to correct as many errors in manufacturer data as possible before disseminating the product data and initial URAs to all States.

Factors Resulting in Delays in Receipt of Rebates. As a result of such start-up delays, few States sent January-March quarter utilization data to manufacturers before July 1991. None received any rebates prior to July. Thus, the first rebates States received under the national agreement were reported to HCFA on the Medicaid expenditure reports (Form HCFA-64) for the quarter ending September 30, 1991.

The most obvious factor affecting the amount of rebates paid that quarter was the timing of State utilization reporting to manufacturers. States experienced varying degrees of difficulty gearing up for this new and complex program in the timeframes provided by law. States had to make claims processing systems modifications, and change the units of measurement used for selected NDCs to conform to the typology mandated by HCFA. Several also had to make more fundamental changes to their Medicaid drug programs, primarily those that did not previously use NDCs, the basis for all reporting under this program.

States that were late in sending January-March 1991 quarter utilization data to manufacturers (and a few States were unable to do so until the end of calendar 1991) received little or no rebate monies in the quarters ending September 30, or December 31, 1991.

Because States bill manufacturers for rebates based on the volume of drugs for which they paid, the rebates received and reported to HCFA vary depending upon a given State's volume and mix of covered outpatient drugs paid for each quarter. Another reason States may be slow to receive rebates is that manufacturers may dispute utilization data, or be unable to decipher it because States may not be reporting as instructed by HCFA.

## D - ANALYTICAL APPROACH FOLLOWED IN THIS STUDY

To facilitate our analysis, we focused on the top 150 drugs defined in terms of national Medicaid expenditures for 1991. These 150 drugs represent nearly one-half of total Medicaid drug expenditures for covered outpatient drugs. One hundred forty-three of these are innovator drugs (i.e., brand-specific), while seven are generics.

Further, because this Report addresses issues which are broadly indicative of costs, prices, and trends under the program, we carefully pruned our data base to assure that only data from States that passed internal consistency edits for the first three calendar quarters of 1991 were included. As described earlier, a number of States experienced operational difficulties with standardizing data, changing data systems to accommodate HCFA-recommended formats, etc., during implementation and data from these States are not included.

Thus, the State utilization and payment data for this Report come from the 27 States which met internal consistency standards:

| | | |
|---|---|---|
| Alaska | Idaho | North Dakota |
| Alabama | Indiana | New Hampshire |
| California | Kansas | New York |
| Colorado | Kentucky | Oklahoma |
| Connecticut | Maine | South Carolina |
| Washington, D.C. | Minnesota | South Dakota |
| Florida | Missouri | Virginia |
| Georgia | Mississippi | West Virginia |
| Iowa | Montana | Wyoming |

## E - RESULTS OF OUR ANALYSIS

### 1. TRENDS IN PRICES PAID BY STATES FOR COVERED OUTPATIENT DRUGS

Approach. Data from the States for the first three quarters of CY 1991 were analyzed to determine increases in the prices paid to pharmacies for the top 150 drugs. The total amount paid to pharmacies was divided by the number of units reported by each State for each of these drugs. The result was the price paid per unit for each drug.

Results. A cumulative average for the first three quarters of CY 1991 indicates that 44 drugs (29.3 percent of the universe of the top 150) had no increase in the price paid (before rebate); 47 drugs (31.3 percent) increased 3 percent or less; an identical number, 47 (31.3 percent) increased by 4 to 10-percent; and, 12 drugs (8 percent) increased by more than 10 percent.

See Exhibit A for additional information on trends in prices paid by States.

2. **INGREDIENT COSTS PAID FOR SINGLE SOURCE DRUGS, MULTIPLE SOURCE DRUGS, AND NONPRESCRIPTION COVERED OUTPATIENT DRUGS**

Approach. The "ingredient cost" is not a readily available figure due to elaborately complex pricing structures used by manufacturers, wholesalers, and distributors. For purposes of this report, the ingredient cost was defined as the price paid by States for each drug, minus the applicable dispensing fees. (The dispensing fee is a service charge paid to pharmacists for dispensing the drug to a Medicaid recipient. The fees range from $2.00 -$7.00 per prescription and vary among States depending upon the contractual agreements reached between Medicaid programs and participating pharmacies as reflected in the State plan.) We recognize that wholesale mark-ups can range from zero to 25-percent and pharmacists mark-ups from 20 to considerably higher percentages. Thus the reader is cautioned that the difficulties associated with defining true ingredient costs have resulted in our use of this rather crude proxy.

The dispensing fee was multiplied by the number of prescriptions paid by each State. The product was then subtracted from the total amount States paid pharmacies for each of the top 150 drugs. Finally, this figure was divided by the number of units paid for each of the top 150 drugs. The result was the ingredient cost per unit.

Results. From the first through the third quarter of CY 1991, 37 drugs (24.7 of the universe analyzed) had no increase in the drug ingredient cost; 50 (33.3 percent) increased 3-Percent or less; 50 of the top 150 drugs (33.3 percent) increased 4 to 10-percent; and, the remaining 13 drugs (8.7 percent of the total) increased more than 10-percent.

See Exhibit B for additional details on ingredient costs.

3. TOTAL VALUE OF REBATES RECEIVED/NUMBER OF MANUFACTURERS PROVIDING REBATES

Approach. The value of rebates received by the State plans and the total Federal share of such rebates were extracted from quarterly expenditure reports submitted by all States.

Results. As stated earlier, 342 manufacturers had enrolled in the program as of April 30, 1991. By July 1, the total was 349; by October 1, 1991, 392 were enrolled; by the start of CY 1992, the total had risen to 413 and by April 1, 1992, 415 manufacturers were enrolled in the program.

During the quarter ending September 30, 1991, 38 States received $92.1 million ($53.3 million Federal share) in rebates from the 342 participating manufacturers. Additionally, the statute allows States to enter into separate agreements with drug manufacturers if such agreements provide rebates at least as large as those required under the national rebate agreement. Eight States received an additional $3.4 million ($1.7 million Federal share) under separate rebate agreements with manufacturers. (Of the eight, all but Texas also received rebates under the HCFA rebate agreement).

The remaining States received no rebates that quarter because of delays or problems in sending their utilization data to participating manufacturers.

During the same quarter, these 38 States spent approximately $1.2 billion on Medicaid prescription drugs. Thus, for the 38 States, the rebates represented about 7.6 percent of prescription drug expenditures that quarter. (Prescription drug expenditures by all States totalled $1.54 billion that quarter.)

> Note: While the statute sets rebate amounts at 10-percent of the average manufacturer price (AMP) for generics, and at least 12.5 percent of AMP for innovator drugs, State prescription drug expenditures reflect dispensing fees, as well as retail-level ingredient costs well above AMP. Thus, as a percent of total Medicaid drug expenditures, rebates are likely to be less than the 10 or 12.5 percent applied to AMP. AMP is defined in the rebate agreement as:
>
> > "...the average price paid to the manufacturer for the drug in the United States by wholesalers for drugs distributed to the retail pharmacy class of trade."

For the quarter ending December 31, 1991, 45 States reported receipt of $143.2 million in rebates ($83.5 million Federal share) from the 342 participating manufacturers. Eight States also received an additional $3.5 million ($1.9 million Federal share) under separate State agreements with manufacturers.

During the same quarter, these 45 States spent approximately $1.57 billion on Medicaid prescription drugs. For the 45 States, rebates under the HCFA agreement represented 9.1 percent of prescription drug expenditures that quarter. (Prescription drug expenditures for all States totalled $1.66 billion that quarter.)

See Exhibit C for additional information on the total value of rebates for the third and fourth quarters of CY 1991.

## 4. EFFECT OF THE INFLATION ADJUSTMENT ON REBATES

The OBRA 90 statute provided for an increase in the URA calculated for any innovator drug for which AMP increases more than the Consumer Price Index - Urban (CPI-U) from the baseline period to the current quarter. Because the seven generic ("non-innovator, multiple-source") drugs in our sample are not subject to this CPI-U adjustment, our analysis focused on the 143 innovators of the top 150 drugs.

Approach. For each of the first three quarters of CY 1991, those drugs for which the AMP increase above the CPI-U caused an increase in the URA were identified. In addition, that portion of the URA attributable to the CPI-U factor also was identified.

Results. From the third quarter of CY 1990 (baseline) to the first quarter of CY 1991, the CPI-U had no impact on the URA for 37 of the 143 drugs (25.9 percent). For 21 drugs (14.7 percent), the CPI-U calculation accounted for up to a 10-percent increase in the URA, and contributed $289 thousand to the total rebates. The CPI-U calculation accounted for an increase of more than 10 percent, but no more than 20 percent in the URA for 39 drugs (27.3 percent), and contributed $3.2 million to the total rebates. For 46 drugs (32.2 percent), the CPI-U calculation accounted for more than a 20 percent increase in the URA and contributed $4 million to the total rebates.

For the second quarter of CY 1991, the CPI-U had no impact on the URA for 22 drugs (15.4 percent). For 11 drugs (7.7 percent), the CPI-U calculation accounted for up to a 10-percent increase in the URA, and contributed $188 thousand to the total rebates. The CPI-U calculation accounted for an increase of more than 10-percent, but no more than 20-percent in the URA for 38 drugs (26.6 percent), and contributed $4.1 million to the total rebates. For 72 drugs (50.4 percent), the CPI-U calculation accounted for more than a 20-percent increase in the URA and contributed $10.2 million to the total rebates.

For the third quarter of CY 1991, the AMP for 127 of the 143 drugs analyzed rose faster than the CPI-U. The CPI-U had no impact on the URA for 16 drugs (11.2 percent). For 11 drugs (7.7 percent), the CPI-U calculation accounted for up to a 10-percent increase in the URA, and contributed $166 thousand to the total rebates. The CPI-U calculation accounted for an increase of more than 10-percent, but no more than 20 percent in the URA for 31 drugs (21.7 percent), and contributed $3.8 million to the total rebates. For 85 drugs (59.5 percent), the CPI-U calculation accounted for more than a 20-percent increase in the URA and contributed $17.8 million to the total rebates.

See Exhibit D for additional information on the effect of the inflationary adjustment.

5. **TRENDS IN MANUFACTURER PRICES**

Approach. Manufacturer pricing data for the third quarter of CY 1990 (baseline) and the first three quarters of CY 1991 were analyzed to identify the changes in the AMP quarter to quarter and for the year.

Results. Of the 143 drugs analyzed between the third quarter of CY 1990 (baseline) and the first quarter of CY 1991, there was no price increase for 14 drugs, while 42 increased up to 3-percent. Seventy-six drugs increased 4 to 10-percent, and 11 drugs' AMP increased more than 10-percent. (Note: Seven of the 150 drugs included in the study are generic and therefore have no baseline data reported.)

Of the 150 drugs analyzed between the first and second quarters of CY 1991, 32 showed no increase in AMP, 69 increased up to 3-percent, 43 increased 4 to 10-percent, and 6 increased more than 10-percent.

Of the 149 drugs analyzed between the second and third quarters of CY 1991, 40 showed no increase and 79 showed an increase up to 3-percent. Thirty showed an increase of 4 to 10-percent. No drug increased in price more than 10-percent (Note: one drug had no data reported for the third quarter of 1991.)

Of the 143 innovator drugs analyzed from the baseline period to the third quarter of CY 1991, 6 showed no increase and 16 increased up to 3-percent. Thirty-seven increased from 4 to 7-percent, while 84 increased by more than 7-percent. It is significant to note that these drug products experienced price increases greater than 7-percent, which is more than double the increase in the CPI-U for that same period. (Note: the data for the third quarter of CY 1991 represents cumulative increases in prices from the first through the third quarters of CY 1991.)

See Exhibit E for additional details on the trend of manufacturer prices for the first three quarters of CY 1991.

6. **EFFECT OF "BEST PRICE" ON THE REBATE AMOUNT**

Approach. The URA for innovator drugs is calculated as 12.5 percent of the AMP or the AMP minus the best price, not to exceed 25 percent of the AMP. "Best price" is defined in the rebate agreement as:

> "...the lowest price at which the manufacturer sells the covered outpatient drug to any purchaser in the United States in any pricing structure (including capitated payments), in the same quarter for which the AMP is computed. Best Price includes prices to wholesalers, retailers, nonprofit entities, or governmental entities within the States..."

For each of the 143 innovator drugs for the first three quarters of CY 1991, we calculated the URA, omitting the best price calculation for each quarter. We then compared the URAs calculated with and without the best price to establish the difference best price made. We then multiplied this difference by the number of units reported for each of the 27 States to determine the impact of "Best Price."

Results. For the first quarter of CY 1991, $47.4 million in total rebates was calculated for the 27 States. The use of Best Price in the rebate calculation accounted for $14.7 million (31.1 percent) of this total. For the second quarter of CY 1991, $70.4 million in total rebates was calculated, of which $20.7 million (29.4 percent) was attributable to the best price. For the third quarter of CY 1991, $91.7 million was calculated. The best price contributed $26.2 million (28.6 percent) of the total rebate calculated.

See Exhibit F for additional information on the effect of "best price" on the rebate amount for the first three quarters of CY 1991.

7. **FEDERAL AND STATE ADMINISTRATIVE COMPLIANCE COSTS**

The statute specifies Federal matching rates for certain State administrative costs related to the drug rebate program:

- Electronic Claim Management (ECM) Systems - 90-percent Federal funding is available for CYs 1991 and 1992 for State acquisition of ECM systems, for the purpose of performing on-line, real time eligibility verifications, claims data capture, adjudication of claims, and assisting pharmacists (and other authorized persons) in applying for and receiving payment.

- Drug Use Review - 75-percent Federal funding is provided during CYs 1991 through 1993 for State expenditures attributable to statewide adoption of a drug use review program. (This item is mandated by the statute.)

- Drug Implementation Costs - 75-percent Federal funding is authorized for State administrative costs related to implementing the drug rebate program, except those related to drug use review. The 75-percent matching rate applies only to Federal fiscal year 1991, after which the matching rate reverts to 50 percent.

Early in CY 1991, HCFA revised the Quarterly Medicaid Statement of Expenditures for the Medical Assistance Program (Form HCFA-64) to allow States to report costs in the three categories described above. No State reported costs in any of the three categories for the quarter ending March 31, 1991. For the following three quarters, the following costs were reported:

- ECM - Four States (Idaho, Illinois, Michigan, and New Hampshire) reported a total of $235,989 ($212,390 Federal share).

- Drug Use Review - Four States (Colorado, Kentucky, Oklahoma, and South Dakota) reported a total of $211,669 ($153,752 Federal share).

- Drug Implementation Costs - Two States (Kentucky and Oklahoma) reported a total of $43,132 ($32,350 Federal share).

While HCFA cannot estimate precisely total State administrative costs associated with implementing the OBRA 90 drug program, the figures shown above clearly understate such costs. States have little incentive to track and report Medicaid administrative costs under the three new categories established for the drug program unless doing so garners a higher Federal matching rate than would otherwise be available.

However, the bulk of State drug program implementation costs relate to modifying mechanized claims processing and information retrieval systems. As such, they qualify for the 90-percent (development) or 75-percent (operations) Federal match rates long available under the Medicaid statute. Additionally, given severe constraints on most States' administrative budgets, few States report having hired new staff for the drug program. Rather, the new workload has been absorbed by existing State personnel.

For the first year of the program, Federal staff costs allocable to the drug rebate program totalled approximately $1,190,000 (Medicaid Bureau, $970,000; Bureau of Data Management and Strategy, $220,000). Contractor support costs amounted to $350,000, and HCFA Data Center costs were $36,000. Thus, total Federal costs for the first year were $1,576,000.

EXHIBITS

EXHIBIT A

| TREND IN PRICES PAID FOR COVERED OUTPATIENT DRUGS 1ST THROUGH 3RD QTR CY91 | | |
|---|---|---|
| PERCENT INCREASE | NUMBER OF DRUGS | PERCENT OF DRUGS |
| <0 | 44 | 29.33 |
| 0-3.4 | 47 | 31.33 |
| 3.5-7.4 | 40 | 26.67 |
| 7.5-10.4 | 7 | 4.67 |
| 10.5-15.4 | 5 | 3.33 |
| 15.5-20.4 | 3 | 2.00 |
| >20.4 | 4 | 2.67 |
| TOTAL | 150 | 100 |

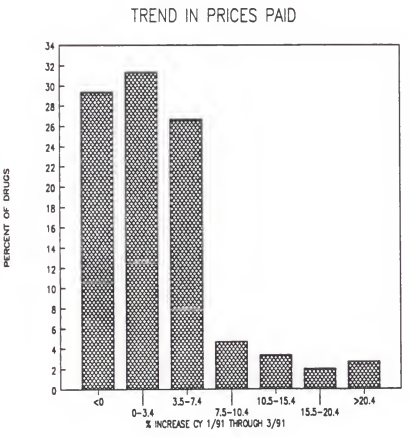


EXHIBIT B

| TREND IN INGREDIENT COSTS OF COVERED OUTPATIENT DRUGS 1ST THROUGH 3RD QTR CY91 | | |
|---|---|---|
| PERCENT INCREASE | NUMBER OF DRUGS | PERCENT OF DRUGS |
| <0 | 37 | 24.67 |
| 0.3.4 | 50 | 33.33 |
| 3.5–7.4 | 36 | 24.00 |
| 7.5–10.4 | 14 | 9.33 |
| 10.5–15.4 | 4 | 2.67 |
| 15.5–20.4 | 5 | 3.33 |
| >20.4 | 4 | 2.67 |
| TOTAL | 150 | 100 |

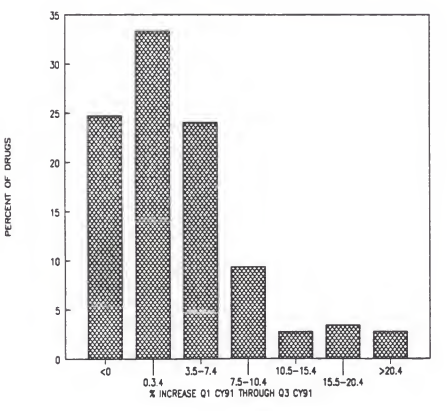


EXHIBIT B

DISPENSING FEES

| | | | |
|---|---|---|---|
| New York | $2.60 | Colorado | $4.08 |
| Pennsylvania | 2.75 | Missouri | 4.09 |
| West Virginia | 2.75 | Connecticut | 4.10 |
| Ohio | 3.23 | Minnesota | 4.10 |
| Maine | 3.35 | Wyoming | 4.16 |
| Rhode Island | 3.40 | Florida | 4.23 |
| New Hampshire | 3.45 | Vermont | 4.25 |
| North Dakota | 3.56 | South Dakota | 4.25 |
| Illinois | 3.58 | Idaho | 4.30 |
| Delaware | 3.65 | Virginia | 4.40 |
| Utah | 3.65 | Georgia | 4.41 |
| Michigan | 3.72 | DC | 4.50 |
| Washington | 3.78 | Arkansas | 4.61 |
| Wisconsin | 3.83 | Hawaii | 4.67 |
| Oregon | 3.84 | Louisiana | 4.68 |
| New Jersey | 3.90 | Kentucky | 4.75 |
| Tennessee | 3.91 | Kansas | 4.77 |
| Nebraska | 3.94 | Texas | 4.88 |
| Nevada | 3.95 | Mississippi | 4.91 |
| New Mexico | 4.00 | Oklahoma | 5.10 |
| Indiana | 4.00 | Iowa | 5.13 |
| California | 4.05 | Maryland | 5.31 |
| South Carolina | 4.05 | Alabama | 5.40 |
| Massachusetts | 4.06 | North Carolina | 5.60 |
| Montana | 4.08 | Alaska | 7.45 |

Arizona - all plans capitated under AHCCCS.

Source: National Prescription Drug Council - September 1991

EXHIBIT C

| DRUG REBATES RECEIVED IN 3RD QTR CY91 | | |
|---|---|---|
| STATE | TOTAL COMPUTABLE | TOTAL FEDERAL SHARE |
| ALABAMA | 2,140,744 | 1,556,963 |
| ALASKA | 266 | 133 |
| ARIZONA | 0 | 0 |
| ARKANSAS | 896,399 | 673,375 |
| CALIFORNIA | 16,742,920 | 8,371,460 |
| COLORADO | 1,963,170 | 1,052,063 |
| CONNECTICUT | $1,042,688 | $521,344 |
| DC | 180,125 | 90,063 |
| DELAWARE | 0 | 0 |
| FLORIDA | 10,083,658 | 5,491,560 |
| GEORGIA | 0 | 0 |
| HAWAII | 0 | 0 |
| IDAHO | 299,238 | 220,389 |
| ILLINOIS | 0 | 0 |
| INDIANA | 2,853,620 | 1,804,629 |
| IOWA | 32,383 | 20,534 |
| KANSAS | 0 | 0 |
| KENTUCKY | 2,326,342 | 1,697,299 |
| LOUISIANNA | 3,448,699 | 2,568,591 |
| MAINE | 550,594 | 349,572 |
| MARYLAND | 1,486,727 | 743,364 |
| MASSACHUSETTS | 2,003,502 | 1,001,751 |
| MICHIGAN | 0 | 0 |
| MINNESOTA | 2,381,337 | 1,272,348 |
| MISSISSIPPI | 305,960 | 244,554 |
| MISSOURI | 207,343 | 124,033 |
| MONTANA | 130,851 | 93,859 |
| NEBRASKA | 0 | 0 |
| NEVADA | 239,254 | 119,627 |
| NEW HAMPSHIRE | 307,512 | 153,756 |
| NEW JERSEY | 277,431 | 135,716 |
| NEW MEXICO | 1,052,887 | 772,608 |
| NEW YORK | 11,270,000 | 5,635,000 |
| N. CAROLINA | 0 | 0 |
| N. DAKOTA | 258,797 | 181,158 |
| OHIO | 5,464,682 | 3,274,984 |
| OKLAHOMA | 1,200,550 | 836,183 |
| OREGON | 948,217 | 602,118 |
| PENNSYLVANIA | 5,737,316 | 3,249,616 |
| RHODE ISLAND | 582,849 | 313,223 |
| S. CAROLINA | 1,901,990 | 1,380,464 |
| S. DAKOTA | 71,302 | 51,806 |
| TENNESSEE | 7,392,178 | 5,068,816 |
| TEXAS | 0 | 0 |
| UTAH | 929,496 | 696,100 |
| VERMONT | 0 | 0 |
| VIRGINIA | 2,399,426 | 1,199,713 |
| WASHINGTON | 0 | 0 |
| WISCONSIN | 2,876,299 | 1,714,849 |
| WYOMING | 90,997 | 62,005 |
| W. VIRGINIA | 0 | 0 |
| TOTAL | $92,077,749 | $53,345,626 |

EXHIBIT C

| MEDICAID EXPENDITURES FOR OUTPATIENT PRESCRIBED D RUGS 3RD QTR CY91 | | |
|---|---|---|
| STATE | TOTAL COMPUTABLE | TOTAL FEDERAL SHARE |
| *ALABAMA* | 20,239,619 | 14,754,635 |
| *ALASKA* | 2,273,981 | 1,136,991 |
| *ARKANSAS* | 18,627,805 | 14,017,167 |
| *CALIFORNIA* | 222,617,217 | 113,128,327 |
| *COLORADO* | 11,975,928 | 6,484,939 |
| *CONNECTICUT* | $17,329,419 | $8,813,270 |
| *DC* | 4,679,106 | 2,383,924 |
| *FLORIDA* | 66,906,132 | 36,437,079 |
| *IDAHO* | 3,954,190 | 2,912,261 |
| *INDIANA* | 35,019,832 | 22,146,542 |
| *IOWA* | 16,419,374 | 10,532,986 |
| *KENTUCKY* | 33,164,179 | 24,278,303 |
| *LOUISIANNA* | 42,549,744 | 31,814,898 |
| *MAINE* | 10,304,362 | 6,603,030 |
| *MARYLAND* | 21,392,267 | 10,896,248 |
| *MASSACHUSETTS* | 47,977,125 | 24,340,384 |
| *MINNESOTA* | 22,153,393 | 11,836,558 |
| *MISSISSIPPI* | 23,499,072 | 18,831,773 |
| *MISSOURI* | 30,724,369 | 18,615,614 |
| *MONTANA* | 3,905,093 | 2,820,864 |
| *NEVADA* | 2,752,654 | 1,390,154 |
| *NEW HAMPSHIRE* | 6,441,068 | 3,254,207 |
| *NEW JERSEY* | 51,719,317 | 26,135,050 |
| *NEW MEXICO* | 6,836,695 | 5,016,767 |
| *NEW YORK* | 170,153,291 | 86,092,596 |
| *N. DAKOTA* | 3,055,776 | 2,150,821 |
| *OHIO* | 74,645,799 | 45,268,328 |
| *OKLAHOMA* | 17,646,425 | 12,333,663 |
| *OREGON* | 13,038,872 | 8,350,297 |
| *PENNSYLVANIA* | 71,403,437 | 40883296 |
| *RHODE ISLAND* | 6,057,103 | 3,288,578 |
| *S. CAROLINA* | 19,627,834 | 14,276,557 |
| *S. DAKOTA* | 2,912,040 | 2,099,226 |
| *TENNESSEE* | 40,691,972 | 27,902,486 |
| *UTAH* | 5,865,854 | 4,406,803 |
| *VIRGINIA* | 25,103,074 | 12,729,504 |
| *WISCONSIN* | 32,004,475 | 19,212,137 |
| *WYOMING* | 1,694,622 | 1,154,715 |
| TOTAL | $1,207,362,515 | $698,730,978 |

Figures are for 38 States
reporting rebates this quarter

EXHIBIT C

| MEDICAID EXPENDITURES FOR OUTPATIENT PRESCRIBED D RUGS 3RD QTR CY91 | | |
|---|---|---|
| STATE | TOTAL COMPUTABLE | TOTAL FEDERAL SHARE |
| *ALABAMA* | 20,239,619 | 14,754,635 |
| *ALASKA* | 2,273,981 | 1,136,991 |
| *ARIZONA* | 187,309 | 133,753 |
| *ARKANSAS* | 18,627,805 | 14,017,167 |
| *CALIFORNIA* | 222,617,217 | 113,128,327 |
| *COLORADO* | 11,975,928 | 6,484,939 |
| *CONNECTICUT* | 17,329,419 | 8,813,270 |
| *DC* | 4,679,106 | 2,383,924 |
| *DELAWARE* | 2,850,231 | 1,442,061 |
| *FLORIDA* | 66,906,132 | 36,437,079 |
| *GEORGIA* | 43,494,045 | 26,882,041 |
| *HAWAII* | 5,283,145 | 2,901,036 |
| *IDAHO* | 3,954,190 | 2,912,261 |
| *ILLINOIS* | 54,223,485 | 27,742,391 |
| *INDIANA* | 35,019,832 | 22,146,542 |
| *IOWA* | 16,419,374 | 10,532,986 |
| *KANSAS* | 9,825,634 | 5,701,105 |
| *KENTUCKY* | 33,164,179 | 24,278,303 |
| *LOUISIANNA* | 42,549,744 | 31,814,898 |
| *MAINE* | 10,304,362 | 6,603,030 |
| *MARYLAND* | 21,392,267 | 10,896,248 |
| *MASSACHUSETTS* | 47,977,125 | 24,340,384 |
| *MICHIGAN* | 54,489,535 | 28,504,694 |
| *MINNESOTA* | 22,153,393 | 11,836,558 |
| *MISSISSIPPI* | 23,499,072 | 18,831,773 |
| *MISSOURI* | 30,724,369 | 18,615,614 |
| *MONTANA* | 3,905,093 | 2,820,864 |
| *NEBRASKA* | 9,184,398 | 5,803,856 |
| *NEVADA* | 2,752,654 | 1,390,154 |
| *NEW HAMPSHIRE* | 6,441,068 | 3,254,207 |
| *NEW JERSEY* | 51,719,317 | 26,135,050 |
| *NEW MEXICO* | 6,836,695 | 5,016,767 |
| *NEW YORK* | 170,153,291 | 86,092,596 |
| *N. CAROLINA* | 35,862,432 | 24,023,838 |
| *N. DAKOTA* | 3,055,776 | 2,150,821 |
| *OHIO* | 74,645,799 | 45,268,328 |
| *OKLAHOMA* | 17,646,425 | 12,333,663 |
| *OREGON* | 13,038,872 | 8,350,297 |
| *PENNSYLVANIA* | 71,403,437 | 40883296 |
| *RHODE ISLAND* | 6,057,103 | 3,288,578 |
| *S. CAROLINA* | 19,627,834 | 14,276,557 |
| *S. DAKOTA* | 2,912,040 | 2,099,226 |
| *TENNESSEE* | 40,691,972 | 27,902,486 |
| *TEXAS* | 63,902,821 | 40,840,367 |
| *UTAH* | 5,865,854 | 4,406,803 |
| *VERMONT* | 4,510,478 | 2,824,316 |
| *VIRGINIA* | 25,103,074 | 12,729,504 |
| *WASHINGTON* | 30,296,250 | 16,688,693 |
| *WISCONSIN* | 32,004,475 | 19,212,137 |
| *WYOMING* | 1,694,622 | 1,154,715 |
| *W. VIRGINIA* | 14,086,006 | 10,846,225 |
| TOTAL | 1,535,558,284 | 893,065,354 |

Figures represent all States

| DRUG REBATES RECEIVED IN 4TH QTR CY91 | | |
|---|---|---|
| STATE | TOTAL COMPUTABLE | TOTAL FEDERAL SHARE |
| ALABAMA | 2,743,550 | 2,000,871 |
| ALASKA | 479,247 | 239,624 |
| ARIZONA | 0 | 0 |
| ARKANSAS | 1,954,610 | 1,478,858 |
| CALIFORNIA | 13,582,671 | 6,791,336 |
| COLORADO | 1,998,045 | 1,094,729 |
| CONNECTICUT | 2,354,417 | 1,177,209 |
| DC | 226,636 | 113,318 |
| DELAWARE | 0 | 0 |
| FLORIDA | 10,028,835 | 5,484,770 |
| GEORGIA | 7,854,944 | 4,852,784 |
| HAWAII | 0 | 0 |
| IDAHO | 480,728 | 352,085 |
| ILLINOIS | 251,466 | 125,733 |
| INDIANA | 4,896,766 | 3,126,585 |
| IOWA | 3,417,841 | 2,222,964 |
| KANSAS | 1,546,764 | 916,148 |
| KENTUCKY | 3,917,769 | 2,852,919 |
| LOUISIANNA | 672,878 | 507,619 |
| MAINE | 2,102,479 | 1,311,947 |
| MARYLAND | 2,631,148 | 1,315,574 |
| MASSACHUSETTS | 655,164 | 327,582 |
| MICHIGAN | 0 | 0 |
| MINNESOTA | 2,557,057 | 1,391,806 |
| MISSISSIPPI | 2,144,209 | 1,715,153 |
| MISSOURI | 4,725,487 | 2,874,986 |
| MONTANA | 702,469 | 503,670 |
| NEBRASKA | 0 | 0 |
| NEVADA | 421,613 | 210,807 |
| NEW HAMPSHIRE | 230,841 | 115,421 |
| NEW JERSEY | 4,454,104 | 2,227,052 |
| NEW MEXICO | 932,735 | 693,302 |
| NEW YORK | 22,543,318 | 11,271,659 |
| N. CAROLINA | 3,410,229 | 2,268,484 |
| N. DAKOTA | 623,940 | 453,916 |
| OHIO | 9,561,051 | 5,806,991 |
| OKLAHOMA | 2,280,835 | 1,618,003 |
| OREGON | 1,714,555 | 1,089,600 |
| PENNSYLVANIA | 11,166,783 | 6,347,199 |
| RHODE ISLAND | 957,892 | 510,461 |
| S. CAROLINA | 3,469,116 | 2,520,660 |
| S. DAKOTA | 536,534 | 390,496 |
| TENNESSEE | 782,461 | 535,282 |
| TEXAS | 441,366 | 291,880 |
| UTAH | 411,906 | 309,383 |
| VERMONT | 604,967 | 371,268 |
| VIRGINIA | 3,904,425 | 1,952,213 |
| WASHINGTON | 1,111 | 611 |
| WISCONSIN | 2,500,183 | 1,531,448 |
| WYOMING | 303,246 | 209,543 |
| W. VIRGINIA | 0 | 0 |
| TOTAL | 143,198,391 | 83,505,949 |

EXHIBIT C

| MEDICAID EXPENDITURES FOR OUTPATIENT PRESCRIBED D RUGS 4TH QTR CY91 | | |
|---|---|---|
| STATE | TOTAL COMPUTABLE | TOTAL FEDERAL SHARE |
| ALABAMA | 26,659,523 | 19,480,277 |
| ALASKA | 2,273,135 | 1,136,568 |
| ARKANSAS | 20,132,094 | 15,253,064 |
| CALIFORNIA | 192,331,835 | 97,658,712 |
| COLORADO | 12,509,134 | 6,923,902 |
| CONNECTICUT | 19,521,545 | 9,915,884 |
| DC | 4,958,014 | 2,523,969 |
| FLORIDA | 97,249,322 | 53,185,654 |
| GEORGIA | 50,936,405 | 31,683,676 |
| IDAHO | 4,431,918 | 3,245,937 |
| ILLINOIS | 68,799,764 | 35,146,477 |
| INDIANA | 48,494,140 | 30,963,508 |
| IOWA | 19,290,603 | 12,647,652 |
| KANSAS | 11,260,553 | 6,730,761 |
| KENTUCKY | 37,626,827 | 27,481,781 |
| LOUISIANNA | 51,473,797 | 38,957,180 |
| MAINE | 11,610,657 | 7,313,262 |
| MARYLAND | 25,293,758 | 12,857,043 |
| MASSACHUSETTS | 43,213,117 | 21,896,128 |
| MINNESOTA | 22,377,142 | 12,179,878 |
| MISSISSIPPI | 28,395,073 | 22,762,148 |
| MISSOURI | 34,338,965 | 21,119,559 |
| MONTANA | 3,843,296 | 2,772,007 |
| NEVADA | 3,309,838 | 1,671,095 |
| NEW HAMPSHIRE | 4,512,986 | 2,278,907 |
| NEW JERSEY | 36,465,575 | 18,232,788 |
| NEW MEXICO | 8,866,429 | 6,616,146 |
| NEW YORK | 170,653,109 | 86,420,193 |
| N. CAROLINA | 34,230,728 | 22,895,135 |
| N. DAKOTA | 3,182,691 | 2,324,790 |
| OHIO | 83,741,728 | 51,299,631 |
| OKLAHOMA | 16,823,781 | 11,934,844 |
| OREGON | 14,061,462 | 9,004,983 |
| PENNSYLVANIA | 93,167,547 | 53,435,621 |
| RHODE ISLAND | 6,520,425 | 3,506,337 |
| S. CAROLINA | 20,899,729 | 15,213,775 |
| S. DAKOTA | 3,132,365 | 2,283,765 |
| TENNESSEE | 44,550,403 | 30,476,931 |
| TEXAS | 80,572,311 | 51,964,595 |
| UTAH | 6,862,420 | 5,154,364 |
| VERMONT | 4,397,696 | 2,723,109 |
| VIRGINIA | 27,731,059 | 14,045,287 |
| WASHINGTON | 30,558,670 | 17,038,350 |
| WISCONSIN | 35,767,959 | 21,718,141 |
| WYOMING | 1,808,498 | 1,261,409 |
| TOTAL | 1,568,838,026 | 925,335,223 |

Figures are for 45 States
reporting rebates this quarter

EXHIBIT C

MEDICAID EXPENDITURES FOR
OUTPATIENT PRESCRIBED DRUGS
4TH QTR CY91

| STATE | TOTAL COMPUTABLE | TOTAL FEDERAL SHARE |
|---|---|---|
| ALABAMA | 26,659,523 | 19,480,277 |
| ALASKA | 2,273,135 | 1,136,568 |
| ARIZONA | 283,567 | 197,861 |
| ARKANSAS | 20,132,094 | 15,253,064 |
| CALIFORNIA | 192,331,835 | 97,658,712 |
| COLORADO | 12,509,134 | 6,923,902 |
| CONNECTICUT | 19,521,545 | 9,915,884 |
| DC | 4,958,014 | 2,523,969 |
| DELAWARE | 2,754,938 | 1,397,116 |
| FLORIDA | 97,249,322 | 53,185,654 |
| GEORGIA | 50,936,405 | 31,683,676 |
| HAWAII | 4,970,484 | 2,654,353 |
| IDAHO | 4,431,918 | 3,245,937 |
| ILLINOIS | 68,799,764 | 35,146,477 |
| INDIANA | 48,494,140 | 30,963,508 |
| IOWA | 19,290,603 | 12,547,652 |
| KANSAS | 11,260,553 | 6,730,761 |
| KENTUCKY | 37,626,827 | 27,481,781 |
| LOUISIANNA | 51,473,797 | 38,957,180 |
| MAINE | 11,610,657 | 7,313,262 |
| MARYLAND | 25,293,758 | 12,857,043 |
| MASSACHUSETTS | 43,213,117 | 21,896,128 |
| MICHIGAN | 56,530,929 | 32,045,880 |
| MINNESOTA | 22,377,142 | 12,179,878 |
| MISSISSIPPI | 28,395,073 | 22,762,148 |
| MISSOURI | 34,338,965 | 21,119,559 |
| MONTANA | 3,843,296 | 2,772,007 |
| NEBRASKA | 10,275,620 | 6,670,804 |
| NEVADA | 3,309,838 | 1,671,095 |
| NEW HAMPSHIRE | 4,512,986 | 2,278,907 |
| NEW JERSEY | 36,465,575 | 18,232,788 |
| NEW MEXICO | 8,866,429 | 6,615,146 |
| NEW YORK | 170,653,109 | 86,420,193 |
| N. CAROLINA | 34,230,728 | 22,895,135 |
| N. DAKOTA | 3,182,691 | 2,324,790 |
| OHIO | 83,741,728 | 51,299,631 |
| OKLAHOMA | 16,823,781 | 11,934,844 |
| OREGON | 14,061,462 | 9,004,983 |
| PENNSYLVANIA | 93,167,547 | 53,435,621 |
| RHODE ISLAND | 5,520,425 | 3,506,337 |
| S. CAROLINA | 20,899,729 | 15,213,775 |
| S. DAKOTA | 3,132,365 | 2,283,765 |
| TENNESSEE | 44,550,403 | 30,476,931 |
| TEXAS | 80,572,311 | 51,964,595 |
| UTAH | 5,862,420 | 5,154,364 |
| VERMONT | 4,397,696 | 2,723,109 |
| VIRGINIA | 27,731,059 | 14,045,287 |
| WASHINGTON | 30,558,670 | 17,038,350 |
| WISCONSIN | 35,767,959 | 21,718,141 |
| WYOMING | 1,808,498 | 1,261,409 |
| W. VIRGINIA | 14,237,960 | 11,060,047 |
| **TOTAL** | **1,657,891,524** | **979,361,384** |

Figures represent all states.

EXHIBIT C

## Rebates Received by States under Separate State Rebate Agreements with Drug Manufacturers

During the third quarter of calendar 1991, 8 States received drug rebates under separate State agreements with selected manufacturers. All but one (Texas) also received rebates under the national rebate agreement during the same quarter.

| State | Rebate Received | Federal Share |
|---|---|---|
| D.C. | $ 3,500 | $ 1,750 |
| Maryland | 157,386 | 78,693 |
| Virginia | 180,494 | 90,247 |
| Arkansas | 105,889 | 79,544 |
| Louisiana | 2,506 | 1,866 |
| Texas | 182,357 | 115,851 |
| California | 2,649,843 | 1,324,922 |
| Idaho | 73,117 | 53,850 |
| Total | $3,355,092 | $1,746,723 |

During the fourth quarter of calendar 1991, 8 States received rebates under separate State agreements. All also received rebates under the national rebate agreement during the same quarter.

| State | Rebate Received | Federal Share |
|---|---|---|
| Massachusetts | $ 323,812 | $ 161,906 |
| D.C. | 5,716 | 2,858 |
| Maryland | 118,773 | 59,387 |
| Georgia | 1,231 | 761 |
| Arkansas | 447,391 | 338,496 |
| Texas | 216,219 | 139,451 |
| Kansas | 163,522 | 96,854 |
| California | 2,211,132 | 1,105,566 |
| Total | $3,487,796 | $1,905,279 |

EXHIBIT D

| THE EFFECT OF INFLATION ADJUSTMENT ON THE UNIT REBATE AMOUNT | | | |
|---|---|---|---|
| % IMPACT | NUMBER OF DRUGS PER QUARTER | | |
| OF CPI-U | Q1 CY91 | Q2 CY91 | Q3 CY91 |
| 0% | 37 | 22 | 16 |
| .1 - 10% | 21 | 11 | 11 |
| 10.1 - 15% | 17 | 15 | 15 |
| 15.1 - 20% | 22 | 23 | 16 |
| 20.1 - 25% | 22 | 20 | 15 |
| >25% | 24 | 52 | 70 |
| TOTAL | 143 | 143 | 143 |

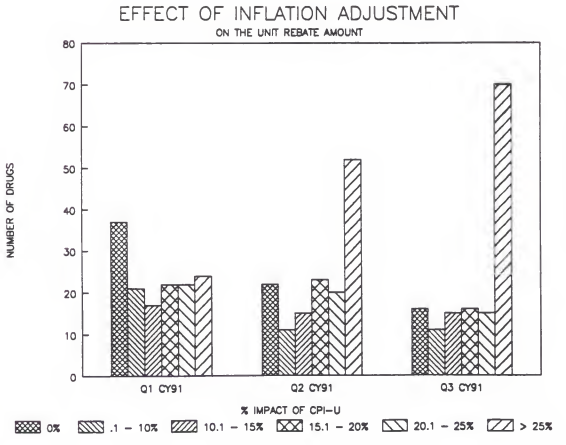


EXHIBIT E

| SPREAD OF AMP QTRLY PRICE INCREASES FOR THE TOP 150 DRUGS | | | | |
|---|---|---|---|---|
| | NUMBER OF DRUGS | | | |
| PERCENT INCREASE | *Q3 CY90 TO Q1 CY91 | Q1 CY91 TO Q2 CY91 | Q2 CY91 TO Q3 CY91 | *Q3 CY90 TO Q3 CY91 |
| <0 | 14 | 32 | 40 | 6 |
| 0–03.4 | 42 | 69 | 79 | 16 |
| 3.5–7.4 | 49 | 39 | 22 | 37 |
| 7.5–10.4 | 27 | 4 | 8 | 28 |
| >10.4 | 11 | 6 | 0 | 56 |
| TOTAL | 143 | 150 | 149 | 143 |

* innovator drugs only. Base is 3rd qtr of CY90.

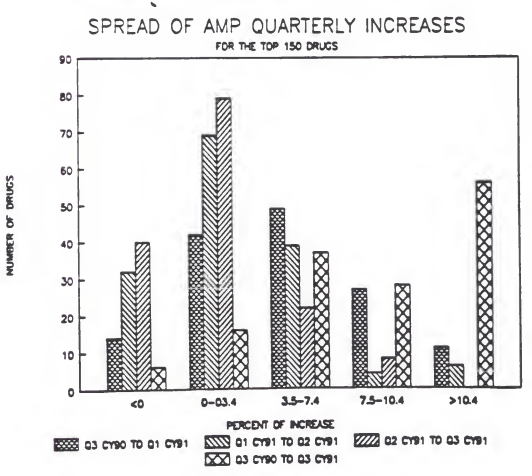
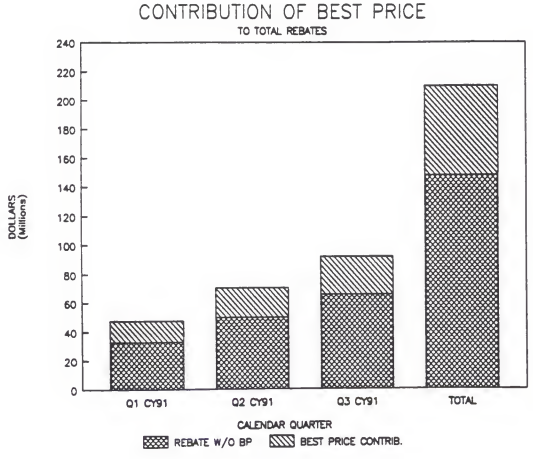


EXHIBIT F

**IMPACT OF BEST PRICE ON REBATES FOR 27 STATES**

**THIS TABLE SHOWS THE REBATE AMOUNT CALCULATED FOR 27 STATES AND THE AMOUNT THAT IS ATTRIBUTED TO THE USE OF BEST PRICE IN THE REBATE CALCULATION FOR EACH CALENDAR QUARTER.**

| PERIOD | REBATE AMOUNT W/O BEST PRICE | BEST PRICE CONTRIBUTION | TOTAL REBATE AMOUNT | % OF B/P CONTRIBUTION |
|---|---|---|---|---|
| Q1 CY91 | $32,709,667.39 | $14,759,448.72 | $47,469,116.11 | 31.09 |
| Q2 CY91 | $49,753,764.74 | $20,705,670.14 | $70,459,434.88 | 29.39 |
| Q3 CY91 | $65,501,857.81 | $26,282,990.51 | $91,784,848.32 | 28.64 |
| TOTAL | $147,965,289.94 | $61,748,109.37 | $209,713,399.31 | 29.44 |



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